Multi-State Taxation

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Tax Patterns for State Returns

Resident Returns

States that have an individual income tax follow one of four basic patterns for calculating tax liability on income tax returns for residents.

1) **Federal AGI.** The first, and most common, pattern is for the state return to begin with federal AGI and then modify federal income by state-specific additions and subtractions. State returns within the federal AGI category may allow:
   - A deduction for standard or itemized deductions,
   - A deduction for personal exemptions, and/or
   - A credit for personal exemptions.
2) **Federal taxable income.** State returns in the federal taxable income category begin with federal taxable income so the standard or itemized deduction and the deduction for personal exemptions have already been included. Federal income is then modified by state-specific additions and subtractions.
3) **State-defined income.** A number of state returns do not use a federal starting point; income is included and excluded based on state law. State returns within the state-defined income category may allow:
   - A deduction for standard or itemized deductions,
   - A deduction for personal exemptions, and/or
   - A credit for personal exemptions.
4) **Interest/dividend income only.** New Hampshire and Tennessee tax only interest and dividend income. Both states allow a deduction for personal exemptions.

No individual income tax. Alaska, Florida, Nevada, South Dakota, Texas, Washington and Wyoming do not have an individual income tax.

Part-Year Resident Returns

States follow one of two basic patterns for calculating tax liability on income tax returns for part-year residents. These are broad classifications to allow an overview of the general calculation methods used by states. The specific calculation method used by each state is provided in each state's instruction booklet.

1) **Determine items of AGI received while a resident.** Part-year residents determine items of AGI received while a resident. Deductions and exemptions, if available, are then prorated by a ratio of income received while a resident to total income. Taxable income is calculated by subtracting prorated deductions and exemptions from AGI received while a resident.
2) **Prorate tax calculated as if a full-year resident.** Part-year residents calculate tax as if a full-year resident and then prorate the tax by a ratio of income received while a resident to total income.

Nonresident Returns

States follow one of two basic patterns for calculating tax liability on income tax returns for nonresidents. These are broad classifications to allow an overview of the general calculation methods used by states. The specific calculation method used by each state is provided in the state section of the publication.

1) **Determine state-source AGI.** Nonresidents determine state-source AGI based on income that is derived from or connected with state sources. Deductions and exemptions, if available, are then prorated by a ratio of income received while a resident to total income. Taxable income is calculated by subtracting prorated deductions and exemptions from state-source AGI.
2) **Prorate tax calculated as if a full-year resident.** Nonresidents calculate tax as if a full-year resident and then prorate the tax by a ratio of state-source income to total income.

Military Spouses Residency Relief Act

This act amends the Servicemembers Civil Relief Act to prohibit a servicemember's spouse from either losing or acquiring a residence or domicile for purposes of taxation because of being absent or present in any U.S. tax jurisdiction solely to be with the servicemember in compliance with the servicemember's military orders if the residence or domicile is the same for the servicemember and the spouse. The act prohibits a spouse's income from being considered income earned in a tax jurisdiction if the spouse is not a resident or domiciliary of such jurisdiction when the spouse is in that jurisdiction solely to be with a servicemember serving under military orders. The act also suspends land rights residency requirements for spouses accompanying servicemembers serving under military orders.

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States With Reciprocal Agreements

District of Columbia. Nonresidents are not required to file a DC return.

Illinois. Iowa, Kentucky, Michigan, and Wisconsin residents are required to file only if they received Illinois-source income other than compensation for services or request a refund of Illinois taxes withheld. Illinois residents working in these states report compensation on Form IL-1040.

Indiana. Full-year residents of Kentucky, Michigan, Ohio, Pennsylvania, or Wisconsin, whose only income from Indiana is from wages, salaries, tips, or commissions, must file Form IT-40RNR, *Indiana Reciprocal Nonresident Individual Income Tax Return.*

Iowa. Iowa residents with Illinois wage income are only subject to tax in Iowa. Illinois residents with Iowa wage income only are only subject to tax in Illinois.

Kentucky. Kentucky has agreements with the states in the table below. Taxpayers are taxed by their state of residence on income covered by the agreement and not by the state where income is earned. Individuals who live in Kentucky for 183 days or more during the year are taxed as residents and reciprocity does not apply.

State	Types of Exemptions
Illinois, West Virginia	Wages and salaries.
Indiana	Wages, salaries, and commissions.
Michigan, Wisconsin	Income from personal services (including salaries and wages).
Ohio	Wages and salaries (unless paid by S corporations to 20% or greater direct or indirect equity investors).
Virginia	Salaries and wages of daily commuters.

Maryland. Maryland has reciprocal agreements with District of Columbia, Pennsylvania, Virginia, and West Virginia. Taxpayers who are residents of these states are not required to file a Maryland return if their only Maryland income is from wages and salaries.

Michigan. Residents of Illinois, Indiana, Kentucky, Minnesota, Ohio, and Wisconsin are only required to file MI-1040 if Michigan income from sources other than wages is received or to request a refund of Michigan withholding.

Minnesota. Minnesota has reciprocal agreements with Michigan and North Dakota. Residents of those states are not subject to Minnesota income tax if:

- The taxpayer was a full-year resident of Michigan or North Dakota who returned to his or her home state at least once a month, and
- The taxpayer's only Minnesota income was from the performance of personal services (wages, salaries, tips, commissions, bonuses).

Montana. Residents of North Dakota are not required to file a Montana return if the only source of Montana income is wages.

New Jersey. Compensation paid to Pennsylvania residents employed in New Jersey is not subject to New Jersey income tax.

North Dakota. North Dakota has reciprocal agreements with Minnesota and Montana.

- Minnesota residents do not have to file a North Dakota return if the only gross income from North Dakota sources is compensation for personal or professional services and the individual returned home to Minnesota at least once each month during the time spent working in North Dakota.
- Montana residents do not have to file a North Dakota return if the only gross income from North Dakota sources is wages.

Ohio. A full-year nonresident living in the border states of Indiana, Kentucky, West Virginia, Michigan, or Pennsylvania does not need to file an Ohio return if the nonresident's only Ohio-source income is from wages.

Pennsylvania. Pennsylvania has agreements with Indiana, Maryland, New Jersey, Ohio, Virginia, and West Virginia. Generally, one state will not tax a resident of the other state on compensation that is subject to employer withholding.

Virginia. The exception for certain nonresidents of Kentucky, the District of Columbia, Maryland, Pennsylvania, and West Virginia applies only to salaries and wages.

Kentucky and the District of Columbia. If the taxpayer is a resident of Kentucky or the District of Columbia and commutes daily to work in Virginia, he or she is not required to file a Form 763, *Nonresident Return,* provided that:

1) The taxpayer had no actual place of abode in Virginia at any time during the taxable year,
2) The only income from Virginia sources is salaries and wages, and
3) The taxpayer's salaries and wages are subject to income taxation by Kentucky or the District of Columbia.

Maryland, Pennsylvania and West Virginia. If the taxpayer is a resident of Maryland, Pennsylvania, or West Virginia, and earns salaries and wages in Virginia, the taxpayer does not have to file a Form 763, *Nonresident Return,* provided that:

1) The only income from Virginia sources is salaries and wages, and
2) The taxpayer's salaries and wages are subject to taxation by Maryland, Pennsylvania, or West Virginia.

West Virginia. Full-year residents of Kentucky, Maryland, Ohio, Pennsylvania, or Virginia, whose only source of West Virginia income is from wages and salaries can claim a refund for tax withheld from wages.

Wisconsin. Wisconsin does not tax wages and other personal service income of residents of Illinois, Indiana, Kentucky, or Michigan. A resident of one of these states whose only income from Wisconsin is wages is not required to file a return, unless the return is to claim a refund for tax withheld in error.

Contact Us

There are many events that occur during the year that can affect your tax situation. Preparation of your tax return involves summarizing transactions and events that occurred during the prior year. In most situations, treatment is firmly established at the time the transaction occurs. However, negative tax effects can be avoided by proper planning. Please contact us in advance if you have questions about the tax effects of a transaction or event, including the following:

- Pension or IRA distributions.
- Significant change in income or deductions.
- Job change.
- Marriage.
- Attainment of age 59½ or 70½.
- Sale or purchase of a business.
- Sale or purchase of a residence or other real estate.
- Retirement.
- Notice from IRS or other revenue department.
- Divorce or separation.
- Self-employment.
- Charitable contributions of property in excess of $5,000.

This brochure contains general information for taxpayers and should not be relied upon as the only source of authority. Taxpayers should seek professional tax advice for more information.

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